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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 003326

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [EINV](#) [PREL](#) [KZ](#) [TX](#) [CH](#)
SUBJECT: PRC: Central Asia-China Pipeline Opens,
Increases Pressure for Natural Gas Price Reform

Classified by: Economic Minister Counselor William
Weinstein for Reasons 1.4 (b/d).

Summary

¶1. (C) PRC President Hu Jintao's December 12-14 working level visits to Kazakhstan and Turkmenistan to inaugurate the Central Asia-China pipeline demonstrated China's growing energy cooperation with Central Asia and increasing demand for imported natural gas, according to two researchers at CNPC's Research Institute of Economics and Technology. Economic planners recognized the need to reform China's domestic natural gas prices to reflect the higher cost of imported natural gas, according to the researchers, but it was unclear when a price reform plan would move forward. Implementing reforms allowing energy prices to rise would be particularly difficult in 2010 as Beijing planned to maintain economic stimulus policies while keeping a close eye on signs of emerging inflation. End summary.

New Silk Road Delivers Natural Gas...

¶2. (C) During Hu Jintao's December 12 visit to Astana, Kazakh President Nursultan Nazarbayev said, according to media reports, the opening of the 4,340 mile Central Asia-China pipeline from Turkmenistan, through Uzbekistan and Kazakhstan, and into Xinjiang province in western China, heralded the re-emergence of a new Silk Road between the region and China. Jiang Xuefeng and Shan Weiguo, researchers at CNPC's Research Institute of Economics and Technology, told Econoff December 11 the pipeline would transport an estimated 3-4 billion cubic meters of natural gas in 2010, approximately 5 percent of China's current consumption. The total capacity of the pipeline would soon reach 30 billion cubic meters (bcm) per annum with plans to increase this to 40 bcm.

...While China's Natural Gas Demand Soars...

¶3. (SBU) Shan noted that China's natural gas usage was expected to increase from less than four percent of China's primary energy use to 10 percent by 2020. While China currently produces most of its natural gas, analysts expect imports to account for a third

of total supplies by 2015. In addition to the Central Asia-China gas pipeline, China has begun work on a natural gas pipeline from Burma and has announced ambitious plans to increase dramatically its imports of liquefied natural gas (LNG) from Australia and Qatar.

...Creating Pressure to Reform Domestic Gas Prices

14. (C) Jiang and Shan noted increasing calls from Chinese state-owned energy firms for natural gas price reform, but it was unclear when such changes might be implemented. Econoff said there had been Chinese media reports earlier this fall indicating natural gas prices could rise 20 to 30 percent in 2010, but National Energy Administration head Zhang Guobao had recently made public comments discounting the possibility of a price hike. Shan said such media reports of potential price hikes in electricity, water and natural gas prices had raised concerns about the impact on inflation and efforts to continue the government's pro-stimulus policies.

15. (SBU) China's current natural gas pricing scheme was set up by NDRC in 2005 and includes a fixed ex-factory price plus additional transportation and distribution fees. According to an industry analysis by Sanford Bernstein, China's current domestic natural gas price excluding transport fees averaged USD 3.50 per million cubic feet compared to

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imported pipeline prices of USD 7.6 and as high as USD 15 for LNG. Media reports indicate NDRC was considering a weighted pricing scheme to reflect the higher cost of imported natural gas and LNG compared to domestic natural gas prices.

Goldberg